The MORTGAGE BANKER

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PROBLEMS FOR CONVENTION DISCUSSION

THE RESPONSIBILITIES OF THE MORTGAGE LOAN CORRESPONDENT

***By* S. M. WATERS**

A LARGE majority of the members of the Mortgage Bankers Association of America are financial correspondents of institutional lenders, chiefly life insurance companies. Many of them represent more than one company. Most of them, for the benefit of their clients, maintain property management departments to service real estate acquired by foreclosure during the worst period of the depression. All of the 58 life insurance companies which maintain regular memberships with the Association operate much of their territory through correspondents. Many of them deal through correspondents exclusively.

The correspondent relationship is, therefore, one of liveliest interest to all of us. Any business which is carried on in large volume over an extended territory tends to develop distinct patterns in its agency relationship. The correspondent plan, as used in our business, is by no means a simple business arrangement but on the contrary one of many peculiarities, not generally understood to the layman and often confusing to those newly entering this field of work. While lacking some of the features of an agency, it in many respects goes far beyond the limits of any ordinary business agency. Its permanency is almost without parallel in other lines and is built upon a degree of mutual confidence and dependence seldom met with in other business matters.

The large volume of idle funds at this time, seeking investment in real estate mortgages, has greatly increased the number of these connections and has brought many new firms into the work. Such abundance of funds, together with the scarcity of available loans, has driven the interest rate to a new low and forces the investor to take careful precaution that an adequate amount of the income be reserved for servicing in future years. In some instances this condition is influencing the investor to bear at least a part of the cost of acquisition of the business, a charge which for many years was borne entirely by the borrower. Federal Housing Administration procedure has played a large part in bringing about such a change. Some think that this Government agency has brought a permanent change in this respect.

THIS is the third of a series of editorials President Waters is writing on subjects you will hear discussed at the Detroit Convention. The first, on July 15, was concerned with low money rates and other problems of mortgage banking today. The second, on August 1st, was devoted to the need for better mortgage and foreclosure laws. Others will follow.

These conditions have put a good deal of strain on the correspondent relationship and brought lasting and added responsibilities to both the mortgage banker and his client. As such changes occur, we are more than ever before in need of dependable information about the terms and amounts of the loans actually being consummated—in a more uniform practice in appraisal and more standard terms. It has always been a serious charge against our business procedure that it is too much influenced by hearsay and rumor. There have always been unexplainable territorial differences in rate, terms and procedure.

At our annual convention, on Wednesday, October 4th, will be held a luncheon conference for the correspondents' group, at which time, through an address from the representative of one of the life insurance companies and through a discussion joined in by a number of prominent correspondents from different parts of the country, the new problems and responsibilities of this important division of our business will be discussed at length.

Plan to attend the convention at Detroit and make your reservation now.

THE TENTATIVE PROGRAM FOR THE 26TH ANNUAL CONVENTION IN DETROIT IS ON PAGES 2 AND 3

GET SET NOW FOR THE ONE CONVENTION NO MORTGAGE MAN CAN AFFORD TO MISS

TENTATIVE PROGRAM

26th Annual Convention

MORTGAGE BANKERS ASSOCIATION OF AMERICA

Hotel Statler -- Detroit -- October 4-5-6

October 3, 1939 (Tuesday)

10:00 a.m.—Meeting of the Executive Committee
2:00 p.m.—Meeting of the Board of Governors
6:30 p.m.—Annual Board of Governors Dinner—Intercollegiate Club

October 4, 1939 (Wednesday) **GENERAL CONVENTION SESSION**

10:00 a.m.—Call to Order—**S. M. Waters,** *President,* Mortgage Bankers Association of America
10:05 a.m.—Invocation: **Rev. B. W. Pullinger,** *Rector,* Grace Episcopal Church, Detroit
10:10 a.m.—Greetings from the Mayor of the City of Detroit, Hon. **Richard Reading**
10:20 a.m.—Greetings from the Detroit Mortgage Bankers Associa- by **Walter J. L. Ray,** *President,*
"Highlights of the Convention" by **Charles H. Sill,** Detroit Convention Chairman
10:30 a.m.—Address—**W. J. Cameron,** *Vice President,* Ford Motor Company
Subject: "A Survey of the Future"
11:15 a.m.—Address—**Wallace W. True,** The Equitable Life Assurance Society of the United States
Subject: "Life Insurance Investment in Industrial and Special Purpose Properties"
12:30 p.m.—**LUNCHEON MEETINGS**
Insurance Company Correspondents Group—**Byron T. Shutz,** *Chairman*
Speaker: To be Announced Later
Subject: "The Changing Relationship Between Insurance Companies and Their Correspondents"
General Discussion—Life Insurance Company Representatives and Their Correspondents
Bank and Trust Company Group—**Frank J. Mills,** *Chairman*
Speaker: **Joseph M. Dodge,** *President,* The Detroit Bank
Subject: "Mortgage Lending and Banking"
7:30 p.m.—Annual Stag Dinner—Book Cadillac Hotel

October 5, 1939 (Thursday)

8:30 a.m.—Breakfast for the Presidents, Secretaries, and Officers of all Local Associations—**Charles A. Mullenix,** *Chairman*
Speaker: **Byron T. Shutz,** *Executive Vice President,* Herbert V. Jones & Co., Kansas City, Mo.
Subject: "How Can We Establish a Closer Relationship Between Local Chapters and the National Body?"
10:00 a.m.—**BUSINESS SESSION**
10:05 a.m.—Annual Presidential Address—**S. M. Waters**

(Continued on Next Page)

FHA GROUP WILL MEET AT DETROIT

The fact that, for the first time in MBA history a special meeting is being set aside at the Detroit Convention to discuss FHA problems, reflects the increased importance of this government agency in the mortgage lending field. This year one of the two luncheon meetings scheduled for Thursday is devoted to those interested in FHA. And quite a lot of them are, more than 200 members being approved FHA mortgagees.

JOHN M. DAIGER

The speaker at this meeting will be John M. Daiger, Assistant to the FHA Administrator, Mr. McDonald, who spoke at last year's convention. His subject is "Facts and Fiction about Mortgage Financing". Guy T. O. Hollyday, a member of the Board of Governors and who wrote on his experiences with large scale FHA-financed housing in an early issue of THE MORTGAGE BANKER, will preside as chairman.

Mr. Daiger was previously Executive Director of the National Emergency Council and Assistant to the Acting Governor of the Federal Reserve Board and, at one time, served as a special assistant to the Chairman of the Board of Governors of the Federal Reserve System.

PRESENT-DAY RELATIONSHIP OF LIFE COMPANIES AND CORRESPONDENTS—A TOPIC FOR DETROIT

Entertainment Program For Detroit Includes Many Varied Events

The annual MBA Convention this year will be noteworthy in many respects. One of them is the fact that members will have a great deal more time to visit, renew friendships, meet other mortgage men and discuss lending problems in different parts of the country and, in general, do a great deal more "contacting" than has been possible in the past. The reason for this is that the program has been shortened slightly to make this possible.

The entertainment side of the Convention activites has not been neglected this year. In fact, a more pleasant, inviting program of entertainment could not be desired. It begins, of course, with annual stag dinner on Wednesday evening at the Book Cadillac Hotel with

(Continued column 3, this page)

ALBERT W. ATWOOD, NOTED WRITER, TO SPEAK ON LESSONS OF DEPRESSION

One of the concluding speakers on the program Friday morning is a man who is probably better-known to business men and bankers over the country as a reliable writer on economic subjects than any other in the country. He is Albert W. Atwood, who for more than 30 years has written on a wide range of business subjects from the viewpoint of the business man. Mr. Atwood's address will be "Lessons of the Depression, Economic and Otherwise".

Everyone in MBA, of course, knows Mr. Atwood's work, but not all know of his past career. He is a native of New Jersey and went to Amherst College. He ho'ds honorary M.A. degrees from that school and from Princeton. He went to work for the *New York Sun* in 1903 as a reporter and later was financial editor for the old *New York Press*. The next step in his interesting career was as lecturer at New York University School of Commerce. Later he was on the faculty of the Columbia University School of Journalism.

From 1914 to 1937 he was a regular contributor to the *Saturday Evening Post* and editorial writer for this maga-

ALBERT W. ATWOOD

zine. He has also been a frequent contributor to *Readers Digest*, *Banking*, *Barron's*, *Commen:ator* and other publications.

Among his books are "Putnams Investment Handbook", "The Stock Exchanges and Speculation" and "The Mind of the Millonaire".

He has lived in Washington since 1927 and is a director of the Washington Gas Light Company, a trustee of the Public Library, the Sidwells Friends School and the Madeira School. He is president of the Washington Society of the Fine Arts. He is a member of the Cosmos and Rotary clubs in Washington and the University and Century clubs in New York.

(Continued from column 1, this page)

a unique program planned by the Detroit Mortgage Bankers Association. Next day is the golf tournament at the Birmingham Club and a dinner dance that evening followed up the next night with the Annual Banquet and Ball.

10:35 a.m.—Business session.
11:00 a.m.—Address—**George W. Drennan,** *President,* Drennan & Sill, Inc., Detroit
Subject: "Twentieth Century Transportation and Its Effect on Real Estate Values"

12:30 p.m.—**LUNCHEON MEETINGS**
FHA Group—**Guy T. O. Hollyday,** *Chairman*
Speaker: **John M. Daiger,** *Assistant to the Administrator of FHA*
Subject: "Facts and Fiction about Mortgage Financing"
Bank and Trust Company Group—**Frank J. Mills,** *Chairman*
Speaker: **Raymond M. Foley,** *Michigan State Director of FHA*
Subject: "Opportunities for Lenders in the FHA Program"
3:00 p.m.—Golf Tournament—Birmingham Golf Club
7:00 p.m.—Dinner Dance, Ballroom Hotel Statler

October 6, 1939 (Friday) **GENERAL CONVENTION SESSION**
10:00 a.m.—Call to Order, President Waters
10:05 a.m.—Address—A Prominent Governmental Official—Name to be Announced Later
Subject: To Be Announced Later
11:15 a.m.—Address—**Albert W. Atwood,** Washington, D. C.
Subject: "Lessons of the Depression, Economic and Otherwise"
11:45 a.m.—Closing Remarks—**S. M. Waters**
12:00 Noon—General Luncheon Meeting, **James E. Rhodes, II,** The Travelers Insurance Company, presiding
Address: **Robert F. Bingham,** Cleveland, *Vice Chairman and Director* of the Real Property Law Division of the Real Property Probate and Trust Law Section of the American Bar Association
Subject: "Uniform Mortgage and Foreclosure Laws"
7:30 p.m.—Annual Banquet and Ball—Hotel Statler

AT DETROIT YOU'LL HEAR FHA DISCUSSED FROM A MORTGAGE MAN'S VIEW

WILLIAM J. CAMERON OF FORD MOTOR CO. WILL BE THE OPENING SPEAKER AT MBA CONVENTION

The voice of the first guest speaker on the program for MBA's 26th annual convention is one that has been known and listened to in millions of American homes for many years—that of William J. Cameron of the Ford Motor Company. Mr. Cameron will make the first address at the opening general session on Wednesday morning.

Prior to 1918, Mr. Cameron was on the editorial staff of the *Detroit News*. He was with this paper for about eighteen years, first as a reporter and then as an editorial writer. Many of his editorials have been widely reprinted; quoted in Congress and copied into the Congressional Record. One, entitled "Don't Die on Third," written 27 years ago, probably has been reprinted a greater number of times than any other editorial ever written. It is included in the American Book Company's school readers, and has been used for years by entrants in the Michigan High School Forensic Association contests. In many instances it has been the prize-winning declamation.

WILLIAM J. CAMERON

Since 1918, Mr. Cameron has been with the Ford Motor Company and for the last five years has been a speaker on the Ford Sunday Evening Hour.

Mr. Cameron has a fine sense of the value of words and a genius for translating ideas and policies into simple, easily understood English. He has a keen analytic mind and the courage to say what he thinks. Scarcely a day passes that he does not receive an invitation to give the principal address at some luncheon, banquet, reunion, convention or other formal gathering in some near or distant city of the United States or Canada. He has also spoken from many influential pulpits.

He is of Scotch descent, about 60 years of age, and is a favorite speaker of Scottish groups at Burns' anniversary celebrations and gatherings of the St. Andrews' Societies.

The subject of Mr. Cameron's address is "A Survey of the Future".

THESE WILL PRESIDE AT THE GROUP MEETINGS

FRANK J. MILLS

CHARLES A. MULLENIX

GUY T. O. HOLLYDAY

Three members of MBA's Board of Governors and the official nominee for MBA president for the 1939-1940 term will preside at the five group meetings of the Detroit Convention. Byron T. Shutz, of Kansas City, presidential nominee, will preside at the luncheon meeting Wednesday noon for Insurance Company Correspondents, and Frank J. Mills, of Fort Wayne, Ind., will preside at the two Bank and Trust Company luncheon meetings on Wednesday and Thursday. Guy T. O. Hollyday, of Baltimore, will preside at the special FHA group meeting Thursday noon, and Charles A. Mullenix, of Cleveland, will preside at the special breakfast meeting Thursday morning.

DETROIT OCT. 4-5-6 MEANS THE BEGINNING OF MBA'S SECOND QUARTER CENTURY

DETROIT BANKER AND MICHIGAN FHA HEAD TO SPEAK AT BANK AND TRUST COMPANY MEETINGS

MBA's youngest membership section, its Bank and Trust Company division, formed less than two years ago and now with nearly 60 members, will hold two of the most interesting meetings scheduled on the Convention program. The first will be a luncheon meeting on Wednesday, the opening day, with Frank J. Mills, Cashier of the Fort Wayne National Bank and a member of the Board of Governors, presiding. The speaker will be Joseph M. Dodge, President of The Detroit Bank, a 94-year-old institution and the oldest bank in Michigan. The second meeting is also a luncheon with Mr. Mills again presiding and the speaker will be Mr. Raymond M. Foley, State Director of the FHA in Michigan. Mr. Foley's subject will be "Opportunities for Lenders in the FHA Program".

JOSEPH M. DODGE

Some of the nation's leading commercial banks are now members of the Bank and Trust Company Division, and it is believed that these two meetings will prove of constructive benefit for all bankers interested in mortgage loans—and that about includes all bankers today.

In a current MBA statement, President Waters points out that he believes the next few years will undoubtedly see the nation's banks and trust companies playing one of the leading roles in business recovery through their increasing purchases of home mortgage loans and estimates that at the present time more than a fourth of all mortgages recorded are being made by banks. He continued:

"With the cost of money almost the lowest ever recorded in this country, banks are turning more and more to the home mortgage field for earnings, with the result that their action alone has acted as a valuable incentive to further new home construction. Banks' holdings of home mortgages trebled in the twenties when the nation was showing substantial net gains in building more new houses than were torn down or destroyed. Today they are back in the field on a far sounder basis than was ever possible before. The modern amortized mortgage cannot be compared for safety and investment attractiveness to the loans available then."

Both Mr. Dodge and Mr. Foley Have Interesting Careers

Mr. Dodge was born in Detroit and attended the public schools there. Later he was an auditor and assistant state bank examiner. From 1917 to 1932 he was engaged in business in Detroit and, in the latter year, returned to banking and was elected vice president of the First National Bank. He served as assistant to the Chairman of the Board.

He was retained by the organizers and directors of the new National Bank of Detroit in 1933. Later he went to The Detroit Bank (then the Detroit Savings Bank) and was made president in December, 1933.

He is a director of the Detroit branch of the Federal Reserve Bank of Chicago, the Economic Club of Detroit, the Standard Accident Insurance Company and is prominent in civic affairs in Detroit.

MBA members will recall Mr. Dodge's article in the April 15th issue of THE MORTGAGE BANKER on "Mortgage Lending Must Be on the Alert to Avoid Speculative Mistakes of the Past".

Mr. Foley's past experience is varied and includes a several year period as a newspaper man.

He was appointed State Director for Michigan of FHA in 1934 and has directed its activities there since that time. The insured mortgage program was started in Michigan under his guidance.

The Detroit FHA office has been brought to a position of leadership in the country, being one of the largest in volume. It is handling from one and a half million to two million dollars in mortgage applications weekly at this time.

RAYMOND M. FOLEY

Prior to entering the government service, Mr. Foley had been engaged in newspaper and public relations work. A native of Wayne County, he was educated in the public schools of Wayne and Macomb Counties, and entered newspaper work with the *Detroit News* after leaving high school. For thirteen years he was City and Managing Editor of the *Pontiac Daily Press*. Subsequently he spent ten years in other publishing and public relations activities. In 1933, he entered the State Government, establishing the first Public Relations Division in Michigan government. The success of this work led directly to his appointment to his present position.

His subject at Detroit will be "Opportunities for Lenders in the FHA Program".

ARE LENDERS PASSING UP PROFITS BY IGNORING CHURCH LOANS?

This Writer Thinks So and Tells His Experience Here

By **J. H. DUIS**

IN considering the advisability of investing funds in mortgages secured by church property, one expects to find some divergence of opinion among lending institutions. Dealing with religious groups of various denominations makes it necessary to use methods different from other mortgage lending.

The first consideration is to secure all data required to properly analyze a church loan. This must take into consideration the particular religious denomination seeking the loan. Location of physical property, its surroundings, design of architecture, and accessability to members are all highly important.

Church architecture usually does not take into consideration the utility of the building for other purposes, but only the distinctive design used by a particular religious group. Owing to the fact that styles of architecture differ among the respective denominations, care must be exercised to determine whether or not the physical property is adaptable for use to other religious groups. Otherwise, in case of adversity, one group may not wish to purchase a property designed for an entirely different denomination and consequent loss may occur.

Economic reproduction cost of the structure may only be taken into consideration after all the data pertaining to the applicant has been fully analyzed, as reproduction cost may determine a greater loanable amount than the applicant's ability to pay.

In the past, it was common practice to require a number of the wealthy members of the congregation to endorse the mortgage notes as additional security. This may have been good business practice once. However, during the recent depression, private fortunes were swept away and, because of little or no amortization and the type of security, loss occurred, making it necessary to adjust the indebtedness to an amount where it met the ability to pay. Therefore, the individual security was more or less an act of charity rather than good business. No lending institution should expect a few individuals to guarantee the mortgage debt as a whole. This procedure may well constitute a weakness in the set-up, as the church debt is a moral obligation of the congregation and must be so considered and so analyzed.

HOW hazardous is lending on church property? William A. Marcus, in his article in the May 15th issue of* THE MORTGAGE BANKER, *listed it as one of 14 hazards to avoid in mortgage lending. The author of this article, after reading Mr. Marcus' summary, tells here how his organization has successfully made nearly three-quarters of a million dollars of church loans—and encountered no difficulty in doing so! He says that "lending institutions are passing up a source of revenue in not considering church loans." For this organization, the hazard of church loans has been turned into a profitable advantage. He explains here the plan followed.

Bond issues secured by a first mortgage upon a congregation's physical property, in many cases, were in amounts beyond the ability to pay and losses were then sustained by the investors. Where the bond sales were confined to the congregation's membership, such matters were probably adjusted in an agreeable manner. The loss sustained by the individual members, being donated to the congregation, made it possible in many cases to pay the debt in full to the non-member holder, and in this manner, they were able to save an otherwise serious situation. If a bond issue is planned for church indebtedness, the amount of issue should not be for a greater amount than the ability to pay.

Pledges to be paid at some future date must be considered as additional collateral and *not as income*. Such collateral becomes income only when paid. Pledges usually cannot be collected by process of law, even though it is a promise to pay for value. In case of non-payment, the individual may claim he received no value, which may be true, in a material sense at least, and thereby defeat payment of the pledge. There are very few congregations willing to be placed in the embarrassing position of having collection forced by law.

If a congregation borrows on unsecured notes, this situation should be fully analyzed, as any indebtedness over and above the first mortgage and the regular current indebtedness may sooner or later lead to difficulty for all concerned. No loans should be made to mission congregations of religious groups as they usually obtain assistance from their district or national group.

There may be missions and mission churches worthy of consideration which may not belong to any nationally-known religious group. They must be analyzed on the basis of their own individual success.

Trusts, fiduciaries, wills, bequests, etc., owned by the church or held for them, should be fully analyzed. Funds of this character are usually given with specific instructions for their use and purposes. The future prospects of a congregation should be an influence only to the extent of making possible easier payment of the present assumed indebtedness. Future prospects are intangible, hard to analyze, and may never materialize.

After many years of successful church lending experience to Lutheran Churches, our company has set up data requirements as follows:

1. *Number of baptized and confirmed members, and number of families.*
2. *Average church and Sunday School attendance.*
3. *Itemized statement of receipts and disbursements for the past five years, as well as a budget for the present year.*
4. *How are members employed? (Broken down by various occupations.)*
5. *Original cost of church property.*
6. *Picture of church property.*
7. *Original amount of loan and record of interest and principal payments.*
8. *Is church incorporated?*
9. *Does church have a definite plan worked out for the retirement of present debt? If so, explain it in detail.*
10. *Describe in detail location of church and the location of nearest Lutheran Churches, and the size of their congregations.*

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SEPTEMBER 1, 1939

WISE LENDING

What are the factors that go into wise mortgage lending today? Here is how the *Coast Banker* defines a wise mortgage lender:

"A wise mortgage lender takes into account the changed conditions in building and architecture. The mortgage lender may detest modernistic types of architecture, but, unless the local market agrees, it would be dangerous to resist the movement.

"The mortgage lender must disregard his prejudices and preferences where they are not in substantial agreement with the evident trend of the market's likes and dislikes. It is desirable, however, that the mortgage risk is attractive in architectural treatment, or rather will remain attractive over sustained periods of time. Market acceptance of architectural styles may be transient. Simplicity, proportion, and character are qualities which are permanently attractive."

DETROIT CONVENTION IS IMPORTANT MILESTONE

The Detroit Convention next month begins MBA's second quarter century—and finds the only national organization of mortgage lenders larger than ever before in its history. Today, MBA has 553 members in 40 states with 24 affiliated local groups. MBA also has nearly 60 members of its Bank and Trust Company Division, although this group is not yet two years old. It has 217 approved FHA mortgagees among its members and 108 authorized agents of approved FHA mortgagees. Its insurance company members total 58.

These ten questions are preliminary only, and enable us to analyze the merits of a request for a loan. If the request warrants further consideration, a "Questionnaire for Church Loan" is executed. This questionnaire is a break-down of all facts and figures obtained in answer to the ten questions, and determines the entire present status of the congregation.

Home office inspection is desirable on all loans over $10,000. All church loans should have amortization provisions, either in full or part. If not fully-amortized, the rate for interest and principal payments should be determined and applied upon the original amount of the loan and *not upon the remaining unpaid balance*. The division of the percentage rate depends upon the interest rate. If a 5 percent interest rate, then the remaining sum of the percentage rate is applied on the principal (Tables are available for fully-amortized loans and may be used if desirable).

MR. DUIS is treasurer of the Lutheran Mutual Life Insurance Company of Waverly, Ia., MBA members. His career began in country banking in 1908 and included a twenty-year period as cashier of an Illinois bank. In 1928, he became associated with the Lutheran Mutual Aid Society, which, ten years later, was mutualized and became an old line life insurance company. It insures only the lives of Lutherans and has $60,000,000 of insurance in force and admitted assets of over $9,000,000. Mr. Duis is in charge of its mortgage department.

It is advisable to use a ten-year term, with semi-annual interest and principal payment provisions, with privilege granted to pay in sums of $100, or fractional parts thereof, on interest paying dates, without penalty. By leaving an open option, the congregation has an opportunity to pay off more than the contracted principal amortization rate when funds are readily available, and thus relieve themselves of principal payments when funds are not. In this way, the congregation can maintain a good paying record and, at the same time, avoid a possible technical delinquency.

All expense in connection with the loan should be paid by the congregation. This includes title insurance, abstracting, examination of abstract, attorney's, inspection and appraisal fees, mortgage tax, commission, photographs and other costs.

Our company has, of record, approximately $700,000 of church loans. Our experience has been favorable and little or no difficulty has been encountered, with practically no principal loss. In fact, our records indicate this type of security has given us less trouble than other types of mortgage security.

Our data requirements may not be adaptable for all denominations. However, it should contain enough information to enable a lending institution to set up data requirements for religious groups in which they may be interested.

Remember, successful church lending depends upon a thorough knowledge and understanding of the principles pertaining to the particular religious group seeking the loan. If church loans are properly analyzed and good, sound, business principles are employed, this class of security should be as desirable as any other kind of mortgage security.

We have another type of debt reduction program which can be successfully operated. However, this plan is designed especially for our constituency and is as follows:

FUNDING PLAN

(Taken from our Rate Book)

This is a life insurance debt-funding plan. In soliciting funds on this plan, no donations are requested. A member of the congregation is asked to loan the congregation a minimum of $125, or any sum not to exceed $12,500. A thirty-year savings refund endowment policy is issued in twice the amount loaned to the church, with a binding agreement that the church will pay the premiums on said policy until the cash value equals the amount of the loan.

This plan may be used for debt reduction in financing hospitals, old peoples' and orphans' homes and similar institutions. It is our plan to continue to appropriate funds for investment in church mortgages.

HERE ARE HOTEL RATES

Hotel Statler, headquarters of the MBA Convention this year, is centrally located, close to everything in Detroit, and one of the country's most modern hotels. Rooms for one run from $3 to $6.50 per day. Rooms for two, with double bed, run from $5 to $8 and with twin beds, from $5.50 to $9 per day. Suites (living room, bedroom and bath) run from $8.50 (for one), to $11.50 (for two), and on up to $13.50 and $16 daily. Make early reservations.

WHY NOT AMORTIZED LOANS FOR PRIVATE INVESTORS TOO?

A Life Insurance Executive Says the Trend Is in This Direction

By C. C. VAN PATTEN

FOR years I have listened to what I believe is a fallacious theory: "Never pay off your first mortgage because, to leave it, will enable you to sell your property more readily when and if you desire to do so."

Unfortunately—looking at the picture from a broader view—these people have been encouraged by mortgagees, both institutional and individual, to take this view. Now, why were these people discouraged in reducing their mortgage principal when they could? The principal reason was that the investor was reluctant to accept principal reductions which would have to be reinvested. In other words, the investor was interested in receiving his income promptly and, if such was the case, he rarely inspected his collateral to see whether or not his security was being maintained, quite frequently individual investors do not take the trouble to investigate the status of taxes which may be a sizeable item *ahead* of their interest as first mortgagee.

I think it is safe to say that there are some institutional investors which have been guilty of these practices. However, in recent years there has developed a very definite trend toward the policy that all loans should be systematically amortized. I feel that this trend is, to a large degree, attributable to the FHA. We should not forget or overlook the fact that building and loan associations and other institutions have approached this problem from the amortization angle for years.

While it is difficult to present here every argument on this subject, I do feel that the topic should be treated from two angles: *First*, from the viewpoint of the investor in the mortgage; and, *secondly*, from the angle of the mortgagor because, in the final analysis—isn't the owner of the mortgaged property a private investor, and shouldn't he be so considered? I am definitely of the opinion that it must be considered from both sides.

Why should a private investor in mortgages require systematic amortization? One has to only look at a group of mortgages taken ten years ago, which have *not* been reduced, to see how the investor's position has been jeopardized. A conservative mortgage placed ten years ago is now sometimes *a one hundred percent loan*. Why? The answer is: *Decline in values* brought about, perhaps, by a combination of factors, one of which I feel is too often overlooked; and that is *obsolescence*. Technological progress in the last decade has, in my opinion, brought about *greater obsolescence* than resulted in the previous two decades. A property may be well maintained but without the modern "gadgets" here and there, I feel that its value is penalized whereby the investor's position as mortgagee can be severely affected.

IF amortized loans are good for institutions, why aren't they good for private investors? Mr. Van Patten sees no reason at all, and here sets forth his view why. Mr. Van Patten is Treasurer of the Security Mutual Benefit Life Insurance Company of Binghamton, N. Y., members of MBA. He is a native of Illinois, went to school in Upstate New York, and in 1923 became associated with a trust company in Endicott, N. Y., where he remained until 1937.

Then the mortgagee may argue that this is only a temporary condition. "Some day values will recover and I will have full protection," he says hopefully. This is all well and good *to the point* where the mortgagor feels that he might just as well give up his property and buy a new one. This leaves the *mortgagee* as owner and he can wait for recovery in values. On the other hand, if the loan had been reduced in accordance with a regular plan that the owner was capable of meeting, the mortgagee would not only have a margin of value, but he would also have a greater grasp of the human factor because of the fact that he would strive to preserve an equity, which he feels confident does exist.

The fact that prepayment of principal creates an investment problem is, I feel, an argument so weak that it should not even be considered. It has happened that when a mortgagor was able to make principal payments, he has been discouraged and, as a result, the money may have been invested otherwise and lost, thereby resulting in loss to mortgagee as well.

"*When they can pay, let them pay, because when you want them to pay, they can't.*"

It takes *amortization of principal* to keep pace with depreciation and obsolescence, which comes even with the best maintained properties. In addition there are many unknown quantities, such as decline of areas, which can ruin values very quickly indeed.

Now let's look at the picture from the mortgagor's side. I have known of many instances where owners have been *refused* the privilege of paying on principal by private investors. I feel quite confident that this has, without a doubt, caused the loss of property which could have been avoided. The mortgagor should be just as insistent on regular amortization as the mortgagee—and for the very same reasons.

A mortgagor, who continues his payments when he can, has a better chance to win leniency when adversity strikes and the mortgagee can find justification because of the fact that the equity has been more or less maintained.

I feel that the relationship of mortgagor and mortgagee is a *partnership affair* and what is good for one is good for both. I feel that amortized loans for *private* investors are just as essential as for *institutional* investors. I feel that *all* mortgage loans should be amortized.

In the past it has been largely a matter of incorrect education. The trend is being reversed and mortgagors, as a class, are realizing more and more what reduction of their debt means. Needless to say, mortgagees have paid well for their lesson and as a result are more cognizant of its importance.

These comments are not intended to be all inclusive as there are many other arguments in favor of the amortized loan. By the same token, some private investors can present a dissenting opinion. I am definitely of the opinion, however, that with amortized loans the investor can minimize his trouble and, in turn, lessen the risk of the mortgagor, thereby performing, to a better degree, the *economic function* of debtor and creditor.

For those who disagree with this position, let me recall Voltaire's observation: "I wholly disapprove of what you say but will defend to the death your right to say it."

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